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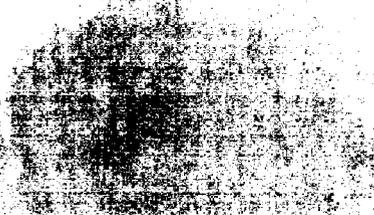
**Fact Sheet to the Chairman of the
Subcommittee on Oversight, Committee
on Ways and Means, House of
Representatives**

November 1985

**TAX
ADMINISTRATION**

**Information on IRS'
Criminal Investigation
Division**







UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

November 8, 1985

B-220978

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This document responds to your May 23, 1985, request that the U.S. General Accounting Office provide you with a general overview of the functions and operations of the Internal Revenue Service's (IRS) Criminal Investigation Division (CID), including such areas as money laundering operations, offshore transactions, participation in organized crime strike force operations, and coordination with the Department of Justice and the Customs Service. We briefed your staff on three occasions while our work was in progress, and they requested that we provide you with a written summary of our results.

We structured our work and this document along the lines of your request. First, we obtained general information on the overall operations of CID. Second, we focused on the four areas mentioned above. Similarly, the first section of this document provides an overview of CID operations. The second section addresses more specifically the CID activities concerning money laundering, offshore transactions, organized crime strike force activities, and CID coordination with the Department of Justice and the Customs Service. Because strike force activities are a large part of IRS' interface and coordination with the Department of Justice, we addressed this issue in the coordination section.

We obtained the information in this document, in part, by interviewing CID, Examination, and Chief Counsel officials and reviewing records in IRS' national office; the North Atlantic and Southeast regions; and the Manhattan, Jacksonville, and Baltimore districts. We selected the IRS regional and district offices because of their high level of activity in money laundering and/or interagency task forces. We also met with the U.S. Attorney in the Southern District of New York and the U.S.

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Attorney in the Southern District of Florida, officials from the Department of Justice Tax Division, and officials from the President's Commission on Organized Crime. We limited the scope of our work to these locations in order to respond to your request within the agreed upon time frame. Our work was performed at the above locations from July through September 1985.

CID and Chief Counsel officials reviewed a draft of this briefing document, and we considered their comments in preparing our final product. As agreed with your staff, we will make copies of this document available to IRS and other interested parties at the same time as you receive it.

If you have questions concerning our study or this document, please contact me on 275-6407.

Sincerely yours,

A handwritten signature in cursive script that reads "Johnny C. Finch". The signature is written in dark ink and is positioned above the printed name and title.

Johnny C. Finch
Senior Associate Director

TABLE

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OVERVIEW OF THE
INTERNAL REVENUE SERVICE'S
CRIMINAL INVESTIGATION DIVISION

In response to a May 23, 1985, request from the Chairman, Subcommittee on Oversight, House Committee on Ways and Means, we obtained information on the overall operations of IRS' Criminal Investigation Division (CID), including such areas as money laundering, offshore transactions, participation in organized crime strike forces, and coordination with the Department of Justice and the Customs Service. Our work was based, in part, on interviews with IRS officials from CID, Examination, and Chief Counsel and a review of records at the national office, the North Atlantic and Southeast regions, and the Manhattan, Jacksonville, and Baltimore districts. In addition, we met with officials from the Department of Justice Tax Division and the President's Commission on Organized Crime. We also met with the U.S. Attorney in the Southern District of New York and the U.S. Attorney in the Southern District of Florida. We selected these work locations primarily because of the high level of money laundering and/or interagency activities that occur there. We performed our work at these locations from July through September 1985 in accordance with generally accepted government audit standards.

CID MISSION

Willful noncompliance with our nation's tax laws is a serious and growing problem. IRS estimates that for tax year 1981, the latest comprehensive data available, the federal tax revenue losses resulting from the unreporting or underreporting of income from legal and illegal sources amounted to \$90.5 billion. To collect tax revenues that are owed to the federal government and to maintain the integrity of our nation's voluntary compliance tax system, IRS allocates its resources among organizational components--one component being CID. The CID mission is to investigate violations of federal tax laws and related offenses, identify areas of noncompliance and methods used to circumvent tax laws, and prepare criminal cases for prosecution.

CID RESOURCES

In fiscal year 1985, CID had an operating budget of \$213.8 million and a staff of about 4,500--about 2,800 special agents and about 1,700 administrative personnel. CID's national office staff of 101 persons is responsible for providing the field with general program information, guidance, and coordination but has no line authority over individual field projects. Likewise, the seven IRS regions include a total CID staff of 116 persons (about 16 persons per regional office). The regional office staffs are responsible for providing the districts with program guidance and coordination. The 63 district offices had 3,818 CID personnel assigned (84 percent of

total CID staff) to plan, conduct, and review CID investigations. The 10 service centers had 446 CID personnel assigned to help identify tax law violators and process pertinent taxpayer information.

CID's stated goal is to devote 50 to 60 percent of its total resources to the general enforcement program (GEP), which focuses on legal source income, and 40 to 50 percent to the special enforcement program (SEP), which focuses on illegal source income. As shown in Table 1, total CID resources for the period October 1, 1984 to June 30, 1985, were allocated between the programs in keeping with the CID goal. In 1985, GEP emphasis was on illegal tax protesters, fraudulent tax shelters, and questionable refunds. For this same period, about one-half of SEP resources (or about 25 percent of CID's total effort) was devoted to drug trafficking investigations.

TABLE 1
Percentage of CID
Resources Devoted to GEP and SEP Cases
October 1, 1984, through June 30, 1985

<u>IRS Region</u>	<u>GEP (%)</u>	<u>SEP (%)</u>
North Atlantic	47	53
Mid Atlantic	52	48
Southeast	52	48
Central	52	48
Midwest	46	54
Southwest	60	40
Western	58	42
Nationwide	53	47

CID CASELOAD

In fiscal year 1984, CID completed 5,925 cases, not including 511 cases which were closed without work due to lack of resources (surveyed cases). About one-half (2,990) of the completed cases were recommended for prosecution by CID District Chiefs. As of June 30, 1985, CID's cases in-process inventory consisted of 5,682 cases under active investigation and another 4,473 cases that had been completed by the field and were in some stage of post-investigative review.

On average, cases completed in fiscal year 1984 consumed 81 staff days, and in 70 percent of the cases, the investigative portion was completed within 1 year. A CID special agent normally is assigned to two or three cases concurrently, depending on the nature and size of the case.

CID INVESTIGATIVE OPERATIONS

CID conducts investigations of tax law violators independently and as part of interagency task forces. The independent investigation process usually begins with a referral from other IRS components, other government agencies, the public, or a CID special agent. CID District Chiefs said they try to select cases for investigation which (1) have a high probability of being recommended for prosecution, (2) provide coverage for a wide variety of tax-related offenses in the geographic area, and (3) will likely have a high deterrent impact on the public. The District Chiefs are responsible for reviewing completed cases and recommending prosecution, if appropriate. Those cases recommended for prosecution are then reviewed sequentially for legal merit by the IRS District Counsel, the Department of Justice Tax Division, and the U.S. Attorney. If deemed to have merit, the case is prosecuted by the U.S. Attorney.

Should an undercover operation be deemed necessary to the success of an investigation, approval is requested at one of two levels depending on the duration and scope of the undercover operation. The Assistant Commissioner (Criminal Investigation) is required to approve all Group I investigations, which are investigations that could (1) exceed 90 days in duration, (2) exceed the Regional Commissioner's level of approval for confidential expenditures, and/or (3) involve unusually sensitive methods or topics (for example, an investigation of possible corrupt action by a public official). According to CID procedures, the Assistant Commissioner (Criminal Investigation) is to be advised on each Group I request by the Directors of the CID Offices of Intelligence and Investigations and a representative of the IRS Office of Chief Counsel. The Regional Commissioner or the Assistant Regional Commissioner (Criminal Investigation) can approve all other undercover investigations (Group II) which do not meet the requirements for Group I. In fiscal year 1984, 39 Group I and 176 Group II undercover operations were performed at a cost of \$1.1 million. About 44 percent of these undercover operations involved tax shelters and 21 percent involved narcotics and/or money laundering activities.

CID also participates in interagency investigations that are conducted under a task force concept. CID generally conducts its portion of interagency investigations and controls its special agents the same way it does for its independent investigations. However, there are two other important differences. First, while CID usually selects the target for its independent investigations, CID enters most interagency investigations to provide financial and tax-related analyses for a target selected by another agency. IRS can and has identified targets for joint investigations, but CID officials noted that other agencies are generally better suited to identify major crime figures. Second, while the legal review procedure

previously outlined is standard for CID's independent investigations, the legal review procedure for interagency investigations varies by the kind of activity being investigated. For example, some grand jury drug trafficking cases with tax ramifications by-pass the IRS District Counsel. However, the U.S. Attorney must send a case with tax ramifications to Justice's Tax Division for legal review. As a second example, on other grand jury cases, the U.S. Attorney normally sends the case to IRS' District or Regional Counsel, depending on the region involved, for a legal review. The Justice Tax Division evaluates the IRS prosecution recommendations and determines whether to prosecute. As a third example, pure money laundering cases are sent directly to the U.S. Attorney because these cases generally contain no tax issues.

CID agents still view the
legal review process as time consuming

In a 1981 report, Streamlining Legal Review of Criminal Tax Cases Would Strengthen Enforcement of Federal Tax Laws, GGD-81-25, GAO concluded that the sequential legal review of CID cases is time consuming and unnecessarily duplicative, and recommended that the Commissioner of IRS and the Attorney General meet to streamline the legal review process for criminal cases. The Grace Commission subsequently stated that the legal review process is unnecessarily duplicative and results in needless time delays. The Senate Appropriations Committee suggested in its report accompanying IRS' 1983 appropriations bill that the IRS and the Department of Justice should develop a streamlined legal review process for criminal cases. While improvements have been made regarding the issues first discussed in GAO's 1981 report, CID special agents and national office officials stated that the sequential legal review of non-grand jury criminal cases by the IRS District Counsel, the Justice Tax Division, and the U.S. Attorney is still somewhat redundant and time consuming.

Since our 1981 report, both IRS and the Department of Justice have adopted separate legal review processes for non-grand jury cases which allow for an expedited legal review of criminal cases considered to be noncomplex. However, each agency established different criteria for classifying a case as noncomplex. According to IRS Chief Counsel statistics, about 13 percent of the fiscal year 1985 non-grand jury criminal caseload was classified as noncomplex by both agencies and therefore eligible for both agencies' expedited legal review. These statistics show that in fiscal year 1985, it took an average of 76 days for a case classified as noncomplex by both agencies to go through the legal review process and reach the U.S. Attorney's office.

The timeliness of IRS' legal review process appears to have improved since our 1981 report. According to that report, in

1980, 36 percent of the criminal cases had been in IRS District Counsel inventory for 7 months or more. In comparison, IRS Chief Counsel statistics show that as of June 30, 1985, 99.7 percent of the cases at the IRS District Counsel had been in inventory less than 3 months. These improvements might be attributed to various factors. Examples cited by IRS officials include the implementation of the new legal review process discussed above, better enforcement of established timeframes for legal reviews, and an increase in the relative proportion of grand jury cases which reduced the workload of IRS attorneys. These improvements notwithstanding, the CID special agents we interviewed stated that, as a whole, the sequential legal review process is still somewhat time consuming and redundant. We were told by IRS Chief Counsel and Justice Tax Division officials that, to date, the heads of these agencies have not met to discuss how the legal review process could be further improved. Lower level representatives have met to discuss various aspects of the legal review process, but have not met to discuss streamlining the overall process as the main agenda item.

CID STRATEGY CHANGE

In November 1979, CID changed its strategy from generating as many cases as possible to generating cases that are more complex, more likely to be successfully prosecuted, and likely to have a high deterrent effect. To implement this new strategy, higher minimum dollar criteria were to be established for case selection, cases of lesser relative importance were to be more carefully screened, the lapsed time goal for case completion was to be increased from 18 to 21 months, and emphasis was to be given to working longer and more difficult cases using a team approach. Table 2 shows the comparative results of CID's efforts for fiscal years 1979 and 1985.

Table 2
Selected CID Case Activity Statistics
Fiscal Year 1979 and Fiscal Year 1985

<u>Area</u>	<u>FY 1979</u>	<u>FY 1985</u>
Total staff years expended	4,304	4,434
Investigations initiated	9,780	6,065
Investigations completed	8,952	5,911
Prosecution recommendations	3,338	3,234
Average staff days per case	55	78
Total prosecution declinations	1,251	531
Total convictions	1,611	2,025
Taxpayers sentenced to prison	675	1,340
Average prison term (months)	15	38
Fines imposed (millions)	\$5.1	\$13.3

The above table shows that from fiscal year 1979 to fiscal year 1985, (1) the number of investigations initiated decreased from 9,780 to 6,065 (38 percent), (2) total prosecution declinations also decreased from 1,251 to 531 (58 percent), and

(3) total convictions increased from 1,611 to 2,025 (26 percent). The table also shows that the average prison the fines imposed increased during this period.

Absent from the above table is a figure for the tax revenues generated by CID activities in fiscal years 1984 and 1985. CID's management information system does not track the amount of federal tax revenues collected as a result of CID activities. Therefore, CID is not in the best possible position to quantify its overall tax revenue contribution nor the effect of any individual program or management initiative. Tax revenue information could also be useful to IRS management when considering the proportion of total IRS resources that should be allocated to CID and other organizational components. CID officials said that tax revenue information would be useful but it cannot be readily generated given current resource constraints.

COORDINATION WITH THE DEPARTMENT OF
JUSTICE AND THE CUSTOMS SERVICE, MONEY
LAUNDERING, AND OFFSHORE TRANSACTIONS

We also obtained information concerning CID's efforts in the areas of coordination with the Department of Justice and the Customs Service, money laundering, and offshore transactions. Because strike force activities are a large part of IRS' interface and coordination with the Department of Justice, we included strike force information in the following section.

COORDINATION WITH DEPARTMENT OF JUSTICE AND THE
CUSTOMS SERVICE

CID often coordinates its investigative activities with the Department of Justice and the Customs Service through task force efforts. IRS expertise in financial and tax related matters is very useful in interagency task forces. Historically, the ability of IRS to secure indictments for tax violations against otherwise untouchable criminals has been a potent weapon. CID's interagency efforts include participation on the Financial Investigative Task Forces (FITF), Organized Crime Drug Enforcement Task Forces (OCDETF), Operation Greenback, and the Organized Crime Strike Forces.

Financial Investigative Task Forces (FITF)

The first FITF was created in 1980 at the initiative of an Assistant U.S. Attorney in Los Angeles and resulted in the successful prosecution of a multi-million dollar tax investigation. A key element of that investigation was a multiagency effort to gather and analyze financial evidence which was essential to the development of the case. Since that time 42 additional FITFs have been created at the initiative of other U.S. Attorneys. These information gathering and case development units are generally responsible for gathering sufficient evidence through a financial investigation to identify individuals and organizations involved in money laundering and drug trafficking activities. The main participants on and beneficiaries of these task forces are IRS, U.S. Customs Service, Drug Enforcement Administration (DEA), and the Federal Bureau of Investigation (FBI). Project coordination is provided by a U.S. Attorney. Unlike other task forces, FITFs are strictly data gathering and analysis units that do not conduct field investigations. Statistics on the number of cases developed by the FITFs or the number of CID staff years that have been spent on FITF activities are not readily available.

Organized Crime Drug Enforcement Task Forces (OCDETF)

In October 1982, the President unveiled an eight-point program to attack drug trafficking and organized crime. A major component of this program was OCDETF, which is a multiagency

effort to identify, investigate, and prosecute members of high level drug trafficking enterprises. As announced by the President, OCDETF was to be composed of regional task forces. The U.S. Attorney for the district where the task force is located is to be the senior official responsible. There are currently 13 OCDETFs, and the participating federal agencies have included IRS; FBI; DEA; U.S. Customs Service; Bureau of Alcohol, Tobacco, and Firearms (BATF); U.S. Marshal Service; and U.S. Coast Guard.

IRS participated in 66 percent of all OCDETF cases through December 31, 1984, and is currently participating in all 13 OCDETF task forces. In fiscal years 1984 and 1985, CID devoted 323 and 362 (projected) staff years, respectively, to OCDETF cases, which is about 11 percent of its total direct investigative time. Table 3 shows CID's activity on OCDETF cases from the program's inception through fiscal year 1985.

TABLE 3
CID Activity on OCDETF Cases
Fiscal Year 1982 through Fiscal Year 1985

<u>Area</u>	<u>Number</u>
Investigations initiated	2,123
Prosecution recommendations	1,286
District open investigations	534
Legal review	335
Prosecution declinations	66
Indictments	886
Trial convictions	89
Guilty and nolo pleas	460
Number sentenced	455

GAO is performing other congressionally requested work dealing with the activities and accomplishments of the OCDETF program. One assignment deals with the organization, budget, and staffing of the program, as well as cooperative arrangements of individual task forces. This work is tentatively scheduled for completion in March 1986. The other assignment deals with the sentences rendered, fines imposed, and assets forfeited as a result of the program. This work is tentatively scheduled for completion in December 1986.

Operation Greenback

Operation Greenback was created in January 1980 as a joint initiative between the Department of Justice and the Treasury Department. Operation Greenback's objectives are to identify and investigate individuals involved in laundering large amounts of currency generated from drug trafficking through financial institutions in Florida. As of March 1985, the task force consisted of 26 IRS special agents, 20 Customs Service special agents, and 7 Assistant U.S. Attorneys. While no DEA agents were actively participating in the task force as of March 1985,

CID agents said that DEA agents will participate in investigations on an as needed basis.

Table 4 shows a status report of Operation Greenback activities as of May 1985. It should be noted that although \$118 million in tax assessments were made by the task force, CID is not in a position to determine how much tax revenue was actually generated from these assessments. As mentioned on page 6, CID's management information system does not capture the amount of tax revenue collected as a result of its efforts.

TABLE 4
Operation Greenback Status Report
Fiscal Year 1980 through May 1985

<u>Area</u>	<u>FY 80</u>	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85^a</u>	<u>Total</u>
Arrests	1	50	22	37	29	29	168
Indictments	1	69	39	45	45	26	225
Jeopardy and termination assessments (000)	\$ 1,438	\$ 23,562	\$ 82,500	\$ 3,412	\$ 1,401	\$ 6,031	\$ 118,344
Currency seized (000)	\$ 1,460	\$ 16,461	\$ 5,139	\$ 12,576	\$ 4,918	\$ 4,353	\$ 44,907
Bond forfeitures (000)	0	\$ 550	\$ 1,100	\$ 10	\$ 500	\$ 100	\$ 2,260
Property seized (000)	0	\$ 1,729	\$ 146	\$ 1,013	\$ 3,701	\$ 244	\$ 6,833

^aAs of May 1985

Organized Crime Strike Forces

In 1966, the President directed Federal law enforcement officials to review the national program against organized crime and designated the Attorney General to be the focal point for developing a unified program against racketeering. Between 1967 and 1971, the Attorney General established 18 Federal strike forces as part of a national strategy to address the organized crime problem. These strike forces, under the general direction of the Organized Crime and Racketeering Section of the Department of Justice, plan a concerted investigative and prosecutive attack on major organized crime figures. The basic concept of this approach is that a coordinated attack directed at organized crime members will weaken organized crime by breaking up its operation. In-depth investigations are conducted in an attempt to remove major organized crime figures from their positions in the criminal hierarchy. However, lower echelon members and associates are also frequently included as targets. Major strike force participants have included the FBI, IRS, DEA, BATF, and local law enforcement agencies.

CID's main contributions to the strike forces have been income tax investigations of targets identified by IRS and other agencies. CID special agents usually work on strike force cases that involve Title 26 (tax violations), Title 31 (currency violations), and/or Title 18 (tax conspiracy) offenses. CID has a strike force representative designated for each of the 14

current strike forces. Eight of the 14 strike forces have a full-time CID representative, and the other 6 have a part-time representative. Full-time representatives perform liaison duties only; the part-time representatives spend some of their time working strike force cases.

Over the past 3 years, CID has spent about 5 percent of its direct investigative time on strike force cases. Table 5 provides more detail on CID's strike force activity.

TABLE 5
CID Strike Force Activity
Fiscal Year 1983 through August 30, 1985

<u>Area</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985^a</u>	<u>Total</u>
Investigations initiated	272	193	290	755
Prosecution recommendations	176	183	179	538
Indictments	90	153	144	387
Trial convictions	13	24	22	59
Guilty and nolo pleas	47	116	58	221
Number sentenced	83	138	95	316

^aAs of August 30, 1985

Quality of interagency coordination

CID officials believe that interagency coordination is much better today than it was 10 years ago. For example, 10 years ago, two agencies may have been investigating the same individual but neither agency might have been aware of the other's investigation. Currently, task force members can, and do, knowingly target their resources at the same individuals. CID officials also stated that there is more sharing of information taking place today than in the past. For example, CID agents said that information developed by the FITF is now shared and used by all participating agencies to the extent permitted by disclosure laws. U.S. Attorney representatives agreed that there has been a significant improvement in interagency coordination since inception of the various task forces.

Notwithstanding these gains, the CID officials we interviewed stated that interagency coordination could be further improved. These officials pointed out that because staff assigned to Operation Greenback and the OCDETF task forces are not always colocated, information does not always flow as freely as it might among participating agents. They also stated that, when colocation does not exist, conflicting agency goals and objectives are more difficult to resolve and interagency coordination could suffer as a result. Given the foregoing, CID officials expressed the opinion that, at a minimum, the task force coordinators should be colocated. U.S. Attorney representatives noted that task forces work best when

participating agents are colocated. CID officials said that while colocation seems preferable, colocation does not always occur for various reasons. As examples, they cited the lack of space and a preference by some agencies not to colocate. One of the other GAO assignments mentioned on page 8 is addressing colocation issues at 8 of the 13 OCDETF task forces.

MONEY LAUNDERING

The objective of money laundering is to convert proceeds from questionable sources into money that can be used without question. Money laundering is often associated with drug trafficking. However, money laundering specialists may also work with abusive tax shelter promoters, illegal tax protesters, organized crime figures, and unethical business people trying to hide untaxed income. Money launderers use a number of different techniques to launder money. These techniques include establishing shell corporations, preparing false documents to disguise funds as loans, exchanging small denominations of cash for larger bills, and purchasing negotiable instruments (cashier checks and certificates of deposit) in fictitious names. Most of these techniques involve an offshore bank or business.

IRS officials stated that money laundering has been a problem for a long time but it seems to have grown recently in both volume and scope. IRS could not provide precise figures on the amount of money laundering taking place or the tax revenue losses associated with these activities. However, the President's Commission on Organized Crime estimated that illegal narcotics sales total between \$50 to \$75 billion per year, and this is only a portion of the amount of money that could be laundered each year.

CID's efforts to address money laundering

CID has been investigating money laundering activities since 1972. During this time CID has initiated 1,225 money laundering cases--1,006 cases under Title 31 (currency violations), 156 cases under Title 18 (tax conspiracy), and 63 cases under Title 26 (tax violations). The majority of these cases were initiated after 1981 when Operation Greenback and OCDETF became fully operational. Table 6 provides information on the 1,006 Title 31 cases. Similar data is not readily available for Title 18 and Title 26 cases.

TABLE 6
Analysis of CID's Title 31 Cases
Fiscal Year 1972 through August 30, 1985

	<u>Number</u>
Title 31 cases	
Completed investigations	755
Ongoing investigations	<u>251</u>
Total	<u><u>1,006</u></u>
Completed investigations	
Indictments	416
Convictions	<u>249</u>
Total	<u><u>755</u></u>
Amount of fines assessed	<u><u>\$4.8 million</u></u>

The statistics in Table 6 include interagency task force cases under CID's two major investigative efforts to address money laundering activities--OCDETF and Operation Greenback. Over one-half of OCDETF investigations involve money laundering activities. According to OCDETF's 1985 annual report, IRS' ability to develop evidence on the expenditure of drug trafficking proceeds and the income tax consequences has improved the government's chance for successful prosecution. Operation Greenback mainly targets money laundering activities, and IRS officials stated that this task force has (1) helped to foster working relationships among the various federal, state, and local law enforcement agencies in Florida, and (2) disrupted the illegal activities of major money launderers, money couriers, corrupt bank officials, and major drug traffickers.

CID agents' suggestions for additional
investigative authority

The major tool used by CID in its money laundering investigations is the Currency and Foreign Transactions Reporting Act (Bank Secrecy Act). The Act requires that a currency transaction report (CTR) must be filed by financial institutions whenever a currency transaction is more than \$10,000. Although Operation Greenback agents said that CTRs have helped identify the flow of illegal funds in this country and disrupt money laundering operations, they suggested that additional authority would enhance their effectiveness in combatting two common practices in money laundering that are not illegal under the Bank Secrecy Act. First, agents suggested to make it illegal for an individual to circumvent the CTR filing requirement by making monetary transactions of less than \$10,000 in several financial institutions in one day. Second, agents

suggested to make it illegal for an individual to attempt--but not necessarily succeed--to circumvent the CTR filing requirement by conspiring with officials of a financial institution or by making monetary transactions of less than \$10,000 at numerous branches of the same financial institution in one day.

To affect the financial well being of major money laundering operations, agents also suggested that forfeiture authority should be granted to allow IRS to seize funds and property associated with these illegal activities. Further, CID agents suggested that a forfeiture fund should be created from seized money to cover agency expenses associated with storing and maintaining seized assets, paying off liens on seized assets, modifying seized assets for law enforcement use (for example, equipping seized automobiles with radios), and providing evidence and reward money. Agents stated that, without such a fund, the costs related to forfeiture would place a serious strain on CID's budget.

We discussed these suggestions with the Assistant Commissioner (Criminal Investigation) who expressed the opinion that the suggestions have merit and told us that IRS is considering recommending to the Treasury Department that the Bank Secrecy Act be amended along these lines.

GAO is currently performing other congressionally requested work concerning money laundering and the Bank Secrecy Act. One assignment deals with the effectiveness of the regulatory agencies' examination of financial institution compliance with the Act. This work is tentatively scheduled for completion in March 1986. The other assignment deals with the collection, storage, analysis, and dissemination of Bank Secrecy Act data to law enforcement agencies; how law enforcement agencies currently use this data; and how well the Department of the Treasury exercises its management and oversight authority. This work is tentatively scheduled for completion in June 1986.

OFFSHORE TRANSACTIONS

According to the Treasury Department, the legal and illegal use of tax havens (financial secrecy jurisdictions) appears to be on the rise. Tax haven transactions may be loosely categorized as (1) transactions that are not tax motivated; (2) transactions that are tax motivated, but consistent with the letter and spirit of the law; (3) transactions that take advantage of unintended legal or administrative loopholes, and (4) transactions designed to escape legal obligations through fraudulent means. As of July 1985, CID had 372 open tax haven cases--225 involving legal source income and 147 involving illegal source income.

In May 1983, CID initiated the Tax Haven Offshore Bank Project (THOB) to identify U.S. taxpayers who are using the facilities of tax haven countries to establish and use business entities and bank accounts for the purpose of tax evasion. THOB is designed to gather pertinent information from many sources, analyze the information to identify individuals who are suspected tax evaders, and send comprehensive leads to the districts for possible investigation or examination. THOB is also designed to respond to inquiries from field agents who are conducting ongoing investigations or examinations. As of July 1985, THOB had forwarded 307 information items to districts either in the form of a referral or a response to a district's inquiry. At that time, THOB was staffed by IRS personnel from CID (11 persons), Examination (2 persons), and Collection (1 person).

While IRS has not conducted a comprehensive evaluation of THOB's effectiveness, it has done some limited testing. For example, in November 1984, a limited IRS analysis revealed that THOB's responses to 35 of 50 inquiries furnished information to the districts that was not previously known.

The success of IRS tax haven cases depends, in part, on the tax information exchange policies of Caribbean and Central American countries. As agreed with your staff, we prepared a separate fact sheet that outlines the tax and criminal enforcement information exchange agreements in place or under negotiation with these countries.

(268233)

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